



Energy Procurement

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May 5, 2017

Michele Kito
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Comments of Pacific Gas and Electric Company on the Division of Water and Audits' 1st Quarter 2016 Audit Memorandum dated November 9, 2016

Dear Ms. Kito:

Pacific Gas and Electric Company ("PG&E") appreciates the opportunity to comment on the California Public Utilities Commission ("Commission") Division of Water and Audits' memorandum ("Audit Memo") dated November 9, 2016, concerning the audit of PG&E's second quarter 2016 Quarterly Compliance Report ("QCR").

Provided below are the Audit Memo Findings and PG&E's Rebuttal. Consistent with PG&E's approved Bundled Procurement Plan ("BPP"), as authorized in D.12-01-033 and D.12-04-046, PG&E requests that a link to these comments be posted on the Commission website with the Audit Memo.¹

Audit Memo Finding 1:

PG&E failed to demonstrate its compliance with Decision (D.) 04-12-048, Ordering Paragraph (OP) 15. In Q1, PG&E executed a two-year gas transportation bilateral contract. PG&E failed to timely and properly consult with its Procurement Review Group (PRG) regarding this contract prior to the contract execution.

PG&E's Rebuttal 1:

PG&E responded to the UAFCB's Audit Finding on October 5, 2016 as part of a data request response. In PG&E's response, PG&E stated that a process was implemented to ensure that the correct procurement processes and methods, PRG consultation requirements, and IE requirements are incorporated into the Physical Gas Trader Desk procedures. Going forward, this process will mitigate the risk associated with the timely and proper consultation with the PRG. As stated in, UAFCB's Rebuttal, UAFCB agrees with the newly implemented actions in place to improve the timeliness of PRG consultation prior to contract execution.

¹ PG&E will provide a link to these comments when the Audit Memo has been posted to the Commission's website.

Audit Memo Finding 2:

PG&E failed to demonstrate compliance OP 3.d and page 20 of D. 03-06-067, pages 39 and 40 of D. 03-12-062 and page 41 of D. 14-02-040. PG&E failed to provide its strong showing justification for the aforementioned gas transportation bilateral contract.

PG&E's Rebuttal 2:

The language that the Audit Memo Finding references in OP 3.d and page 20 of D. 03-06-067, pages 39 and 40 of D. 03-12-062 and page 41, of D. 14-02-040 support PG&E's position. PG&E has provided the appropriate justification for the bilateral transaction and believes that the Department of Water and Audit staff ("Staff") is in error making an Audit Finding given the criteria in the Commission Decision(s) regarding Strong Showing.

Term and Type of Transaction	Decision	Showing Requirement (emphasis added)
32 days or more – Standard and Non-Standard products	03-06-067	Maintain the strong showing standard for <u>negotiated</u> bilaterals for transactions of products executed more than 31 days in advance of need and longer than one-calendar month in duration. (pg. 20)
90 days or greater – Non-Standard Products Only	03-12-062	Utilities may use <u>negotiated</u> bilateral contracts to purchase term non-standard products provided a statement is included in the QCR filings to justify the need for a non-standard product in each case. The justification must state why a standard product that could have been purchased through a more open and transparent process was not in the best interest of ratepayers. (pp. 39-40) ²

As PG&E stated in its Audit Finding data response dated October 7, 2016, the purpose of the strong showing is for the utilities to "make a showing that such transactions represent a reasonable approximation of what a transparent competitive market would produce."³

The transaction executed on January 26, 2016 for Gas Transportation is a CPUC-tariff service – the price was not negotiated. When PG&E originally submitted the Gas Transportation transaction, in the Q1 QCR, this transaction was correctly listed in Attachment A and its supporting documentation was provided in Attachment H, in compliance with the BPP. Included in the submitted materials, was the screen shot from the transaction, "Transportation Exhibit", where the Rate Schedule label reflects the Annual Firm Transportation On-System GAS SCHEDULE G-AFT. In the G-AFT tariff⁴, it states that the "Rates under this schedule are not negotiable."⁵ Since the price for this gas transaction is set by the CPUC, it was not procured from a competitive marketplace. Since the transaction was not procured from a competitive marketplace and the price was not

² Affirmed in D. 14-02-040, p. 41.


³ D.02-10-062, p. 34

⁴ <https://www.pge.com/tariffs/index.page>

⁵ Cal. P.U.C. Sheet No. 30656-6, Sheet 3

negotiated pursuant to the terms of a Commission-approved tariff, the strong showing requirement was not applicable and there was no compliance obligation to provide justification for this transaction as part of Attachment M.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Kelly Everidge".

Kelly Everidge

Director

Energy Compliance and Reporting Department

cc: Charles Middlekauff, Law Department
Shilpa Ramaiya, CPUC Electric Proceedings
Leslie Almond, CPUC Electric Proceedings
Marianne Cocard-Aikawa, Energy Compliance and Reporting
Angela Torr, Energy Compliance and Reporting